Surveys of Consumers

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DECLINE IN CONFIDENCE WEAKENS SALES PROSPECTS

- In the November 1987 survey, the Index of Consumer Sentiment was 83.1, down from 89.3 in October and 93.6 in September. Following the sharp declines recorded in the last ten days of October when the Index averaged 82.4, the overall level of consumer confidence has remained largely unchanged at that lower level during the month of November. Thus there is no evidence of an ongoing free fall in consumer confidence, nor is there any evidence that the damage to consumer confidence will be temporary. The October 19th plunge in stock prices has, in the view of consumers, substantially diminished prospects for the national economy. And as a result of the heightened level of uncertainty surrounding the stock market decline, consumers have become more cautious in their spending plans. Although these trends indicate weakened sales prospects through early 1988, much will depend on the availability of price discounts and reduced interest rates which consumer now expect in the upcoming months. The best prospect is that the weakness in consumer sales will be short-lived, with employment and income trends remaining strong, bolstered by rising exports.

- The November survey recorded a near universal awareness of the plunge in stock market prices, and more importantly, the data indicate that this event has had a considerable impact on consumer attitudes and expectations. Before any reference was made by the interviewer to the stock market, 52 percent of all respondents had already spontaneously mentioned the stock market decline when asked to explain their views on questions ranging from personal finances to prospects for the general economy. In addition, when those respondents who had not spontaneously mentioned the stock market decline were directly asked, a total of 92 percent of all respondents reported hearing of the stock market decline. Such a pervasive and widespread impact indicates that for consumers the stock market decline has become a pivotal factor in the formation of their own attitudes and expectations.

- When asked to evaluate the current state of the national economy, the majority opinion has turned from positive to negative since the stock market plunge, without further deterioration during the month of November. In the November 1987 survey, 50 percent thought that the economy had worsened, up from 35 percent one month earlier. The proportion that thought that the economy was improving fell to just 33 percent in November, from 49 percent in October. And more families expected bad times rather than good times financially in the economy as a whole during the next 12 months. The proportion of consumers that expected good times financially fell to 38 percent in November from 43 percent in October, while bad times in the economy were expected by 45 percent in November, up from 38 percent one month earlier.

- Increases in the national unemployment rate are the primary concern expressed by consumers, with increases expected by one in three respondents in the November survey. In contrast, inflation and interest rate expectations have improved during the past month. Among all families in the November survey, the annual rate of inflation expected to average 3.9% during the year ahead, down from 4.4% in the October survey. Interest rates were expected to increase by 49 percent of all families in the November 1987 survey, down sharply from 67 percent recorded one month earlier.

- The proportion of families that held favorable attitudes toward buying conditions for homes fell to 58 percent in November 1987, down from 70 percent one month earlier, and 83 percent one year earlier. Interestingly, the recent improvement in interest rate expectations has resulted in somewhat less favorable views of current home buying conditions. Along with the sharply higher interest rate expectations recorded earlier in the year, consumers increasingly based their favorable assessments of current home buying conditions on the advantage of borrowing in advance of the then expected increases in mortgage rates. With the recent shift toward lower interest rate expectations, many fewer consumers cited the advantage of borrowing in advance in the November survey—falling to 11 from 22 percent one month earlier. Thus this shift in expectations is likely to reduce sales prospects in the near term, as consumers postpone purchases in anticipation of the expected declines in mortgage rates.

- In contrast to home buying conditions, attitudes toward purchases of large household items and vehicles posted only small declines in the November survey, although they remained much less favorable than three months or one year earlier. Favorable attitudes toward vehicle buying conditions were held by 57 percent of all families in the November 1987 survey, just below the 58 percent recorded in October, but well below the 66 percent recorded three months earlier. The decline has been largely due to the ending of the last round of deep discounts on interest rates offered by vehicle manufactures. Favorable attitudes toward buying conditions for furniture, appliances and household electronics were held by 66 percent of all families in the November survey, down from 69 percent in October, and 74 percent three months earlier.

- Although the November survey recorded a marginal decline in personal financial prospects, on balance, consumers evaluations of their personal financial situation remained favorable. While consumers do not expect the stock market plunge to lower their own income and employment prospects during the year ahead, the widespread uncertainty about the implications of "Black Monday" has fostered a "wait and see" attitude. As a result, consumers have become more cautious in their spending plans. Fewer consumers expressed their willingness to use accumulated savings or to incur new debt to make major purchases in the November survey. The proportion of families willing to use their accumulated savings was 24 percent in November, down from 34 percent in October, and the lowest proportion recorded in five years. Favorable views toward the use of debt were also at a five year low. Willingness to incur new debt was reported by 20 percent of all families in the November 1987 survey, while just slightly below the 23 percent in October, it was substantially below the mid 1986 peak of 35 percent. Much of the decline in consumers' willingness to use credit occurred earlier in 1987, when interest rates were rising.

TABLE 1

INDEX OF CONSUMER SENTIMENT AND ITS COMPONENTS

Index Measures (Table Number)	Nov 1986	Aug 1987	Sept 1987	Oct 1987	Nov 1987
Index of Consumer Sentiment(1)					
All Families(1)	91.4	94.4	93.6	89.3	83.1
Families with Incomes over $30,000(1)	97.5	104.4	100.6	99.9	87.7
Current Index(3)	106.7	107.8	108.3	103.1	99.3
Expected Index(3)	81.6	85.8	84.2	80.4	72.7
Personal Finances					
Current(3)	121	122	119	118	115
Expected(3)	121	127	124	128	118
Business Conditions					
One year ahead(3)	120	125	122	105	93
Five years ahead(3)	87	93	92	90	80
Buying Conditions					
Household Durables(3)	155	157	162	149	142
Homes(23)	168	149	146	144	120
Vehicles(25)	132	141	141	127	122
Use of Savings	74	65	na	72	50
Use of Credit	55	51	na	48	43
Cases	656	654	650	500	501

TABLE 2

CONSUMER SENTIMENT MEASURES

Question	Nov 1986	Aug 1987	Sept 1987	Oct 1987	Nov 1987
Current Personal Finances(4)					
Better	43%	45%	42%	43%	42%
Worse	22%	23%	23%	25%	27%
Expected Personal Finances(6)					
Better	33%	39%	35%	37%	33%
Worse	12%	12%	11%	9%	15%
Current Business Conditions(12)					
Better	45%	54%	49%	49%	33%
Worse	37%	30%	34%	35%	50%
One Year Business Outlook(15)					
Good Times	53%	55%	51%	43%	38%
Bad Times	33%	30%	29%	38%	45%
Five Year Business Outlook(16)					
Good Times	35%	36%	37%	36%	31%
Bad Times	48%	43%	45%	46%	51%
Unemployment Expectations(17)					
Lower	11%	15%	13%	17%	10%
Higher	34%	27%	29%	29%	36%
Interest Rate Expectations(18)					
Higher	43%	62%	66%	67%	49%
Lower	19%	9%	7%	11%	22%
Household Durables(21)					
Good Time to Buy	72%	74%	75%	69%	66%
Bad Time to Buy	17%	17%	13%	20%	24%
Homes(23)					
Good Time to Buy	83%	73%	71%	70%	58%
Bad Time to Buy	15%	24%	25%	26%	38%
Vehicles(25)					
Good Time to Buy	63%	66%	66%	58%	57%
Bad Time to Buy	31%	25%	25%	31%	35%
Use of Savings					
Willing to Use	37	31	na	34	24
Reluctant to Use	63	66	na	62	74
Use of Credit					
Willing to Use	27	25	na	23	20
Reluctant to Use	72	74	na	75	77
Cases	656	654	650	500	501